

International Macroeconomics

Module 2, 2018-2019

Instructor: Konstantin Egorov

New Economic School

kegorov@nes.ru

Course information

Course Website: my.nes.ru

Instructor's Office Hours: by appointment

Class Time: TBA

Room Number: TBA

TAs: N/A

Course description

The goal of this course is to provide students with an inside look at the research process. We will get familiar with the nuts and bolts of cutting-edge research, see how the core results could be first obtained in very simplified frameworks, and appreciate what then could be gained from their generalization. We will start from the very basics and make it all the way to a variety of nuanced insights.

This journey, however, will come at a cost of limiting the scope of the course to a very narrow area within the broad field of international macroeconomics. Specifically, we will focus on open economy dimensions of optimal monetary policy, which are among the main issues that policymakers face throughout the world. They are often at the forefront of many topics such as global crises, the dominance of the dollar in the world economy, non-cooperative policies like "currency wars", international spillovers from the U.S. monetary policy, and the role of international cooperation.

In the end, students should get a clear view of how policy recommendations on these issues are made and what are their limitations.

Course requirements, grading, and attendance policies

Class attendance and participation are encouraged, but not required. The course grade will be based on homework assignments (40% of the grade) and a final project (60% of the grade). Homework assignments may include problem sets, questions on some of the assigned papers, and referee reports. In the final project, students will try to extend an existing result to a new environment. Topics for final projects will be distributed by the instructor, but students who

come up with their own topics (subject to instructor's approval) will get an extra credit. The final projects could be completed in teams of up to three people.

Course contents

- I. Review of the optimal monetary policy in closed economy
 - Commitment and discretion
 - Policy targets
 - Time-inconsistency of optimal policy
- II. Optimal monetary policy under producer currency pricing
 - Isomorphism of policy targets in the closed and open economies
 - Terms of trade externality
 - Gains from international cooperation
- III. Optimal monetary policy under local currency pricing
 - Currency misalignments
 - Optimality of fixed exchange rates
- IV. Optimal monetary policy under dollar currency pricing
 - International spillovers
 - Partial peg to the dollar
- V. Monetary policy and frictions in the international financial markets
 - Global financial cycle
 - Role of dollar-denominated debt
 - Exorbitant privilege
 - Capital controls
 - Foreign exchange interventions
- VI. Fiscal instruments when monetary policy is constrained
 - Currency wars at the liquidity trap
 - Monetary unions

Sample tasks for course evaluation

Write a referee report on the paper "Exchange Rate Misalignment, Capital Flows and Optimal Monetary Policy Trade-offs" by Giancarlo Corsetti, Luca Dedola and Sylvian Leduc.

Course materials

- Alesina, Alberto, and Robert J. Barro. "Currency unions." *The Quarterly Journal of Economics* 117.2 (2002): 409-436.
- Aoki, Kosuke, Gianluca Benigno, and Nobuhiro Kiyotaki. "Monetary and financial policies in emerging markets." *Unpublished paper, London School of Economics*. [652] (2016).
- Benigno, Gianluca, and Pierpaolo Benigno. "Price stability in open economies." *The Review of Economic Studies* 70.4 (2003): 743-764.
- Benigno, Pierpaolo. "Optimal monetary policy in a currency area." *Journal of international economics* 63.2 (2004): 293-320.

- Boz, Emine, Gita Gopinath, and Mikkel Plagborg-Møller. *Global trade and the dollar*. No. w23988. National Bureau of Economic Research, 2017.
- Caballero, Ricardo J., Emmanuel Farhi, and Pierre-Olivier Gourinchas. *Global Imbalances and Currency Wars at the ZLB*. No. w21670. National Bureau of Economic Research, 2015.
- Calvo, Guillermo A., and Carmen M. Reinhart. "Fear of floating." *The Quarterly Journal of Economics* 117.2 (2002): 379-408.
- Casas, Camila, et al. *Dominant currency paradigm: a new model for small open economies*. International Monetary Fund, 2017.
- Chari, V. V., Alessandro Dovis, and Patrick J. Kehoe. "Rethinking Optimal Currency Areas." (2015).
- Clarida, Richard, Jordi Gali, and Mark Gertler. "Optimal monetary policy in open versus closed economies: an integrated approach." *American Economic Review* 91.2 (2001): 248-252.
- Clarida, Richard, Jordi Gali, and Mark Gertler. "A simple framework for international monetary policy analysis." *Journal of monetary economics* 49.5 (2002): 879-904.
- Corsetti, Giancarlo, and Paolo Pesenti. "Welfare and macroeconomic interdependence." *The Quarterly Journal of Economics* 116.2 (2001): 421-445.
- De Paoli, Bianca. "Monetary policy and welfare in a small open economy." *Journal of international Economics* 77.1 (2009): 11-22.
- Devereux, Michael B., and Charles Engel. "Monetary policy in the open economy revisited: Price setting and exchange-rate flexibility." *The Review of Economic Studies* 70.4 (2003): 765-783.
- Devereux, Michael B., and Charles Engel. "Expenditure switching versus real exchange rate stabilization: Competing objectives for exchange rate policy." *Journal of Monetary Economics* 54.8 (2007): 2346-2374.
- Eggertsson, Gauti B., et al. "A contagious malady? Open economy dimensions of secular stagnation." *IMF Economic Review* 64.4 (2016): 581-634.
- Engel, Charles. "Currency misalignments and optimal monetary policy: a reexamination." *American Economic Review* 101.6 (2011): 2796-2822.
- Fanelli, Sebastián, and Ludwig Straub. "A theory of foreign exchange interventions." (2016).
- Farhi, Emmanuel, Gita Gopinath, and Oleg Itskhoki. "Fiscal devaluations." *Review of Economic Studies* 81.2 (2013): 725-760.
- Farhi, Emmanuel, and Ivan Werning. *Dealing with the trilemma: Optimal capital controls with fixed exchange rates*. No. w18199. National Bureau of Economic Research, 2012.
- Farhi, Emmanuel, and Ivan Werning. "Dilemma not trilemma? Capital controls and exchange rates with volatile capital flows." *IMF Economic Review* 62.4 (2014): 569-605.
- Farhi, Emmanuel, and Iván Werning. *Labor mobility within currency unions*. No. w20105. National Bureau of Economic Research, 2014.
- Farhi, Emmanuel, and Iván Werning. "Fiscal unions." *American Economic Review* 107.12 (2017): 3788-3834.
- Gali, Jordi, and Tommaso Monacelli. "Monetary policy and exchange rate volatility in a small open economy." *The Review of Economic Studies* 72.3 (2005): 707-734.
- Goldberg, Linda, and Cédric Tille. "Macroeconomic interdependence and the international role of the dollar." *Journal of Monetary Economics* 56.7 (2009): 990-1003.
- Goldberg, Linda S., and Cédric Tille. "Vehicle currency use in international trade." *Journal of international Economics* 76.2 (2008): 177-192.
- Gopinath, Gita. *The international price system*. No. w21646. National Bureau of Economic Research, 2015.

- Ilzetzki, Ethan, Carmen M. Reinhart, and Kenneth S. Rogoff. *Exchange arrangements entering the 21st century: Which anchor will hold?*. No. w23134. National Bureau of Economic Research, 2017.
- Mukhin, Dmitry. "An Equilibrium Model of the International Price System." *2018 Meeting Papers*. No. 89. Society for Economic Dynamics, 2018.
- Obstfeld, Maurice, and Kenneth Rogoff. "Global implications of self-oriented national monetary rules." *The Quarterly journal of economics* 117.2 (2002): 503-535.
- Rey, H el ene. *Dilemma not trilemma: the global financial cycle and monetary policy independence*. No. w21162. National Bureau of Economic Research, 2015.

Academic integrity policy

Cheating, plagiarism, and any other violations of academic ethics at NES are not tolerated.